

A	B	C	D	E	F	G	H	I	J	K	L	M	N
Malpractice Insurance Cost Impact													
										Exhibit 7			
						FY1995 FY1996 FY1997 FY1998 FY1999							
AHERF entities added FY97 (c)													
AUMC	AUMC	Alliegheny Valley		\$	(129)	(170)	(185)						
AUMC	AUMC	Canonsburg		-	(69)	(68)							
AUMC	Forbes Regional Hospital			(254)	(243)	(236)							
Centennial	AUH, City Ave & Parkview			(85)	(256)	(249)							
Centennial	AUH, Graduate			(129)	(448)	(436)							
Sources:													
Source Data													
AHERF letter to Governor Ridge Re: CAT Fund Increase, 12/97													
PA Health Care Cost Containment Council Hospital Financials													
PA Medical Society, "History of Mandatory Coverage & Medical Liability Reform"													
http://www.apasdas.com/apas_detail.cfm?doc=1359&id=17													
Physician's News Digest, "CAT Fund Fight Brings Historical Tort Reform", 12/96													
Notes:													
(a) Base entities: Allegheny General Hospital Bucks County Hospital Elkins Park Hospital Medical College of PA Hospital St. Christopher's Hosp for Children													
(b) Entities added FY95: Hahnemann University Hospital													
(c) Entities added FY97: Forbes Health System Graduate Health System Allegheny Valley Hospital Cannonsburg General Hospital													
(d) PA physicians purchase malpractice insurance in a two layered fashion - a primary coverage of \$300,000 per occurrence obtained from a commercial carrier and a mandatory excess liability obtained from the state run CAT (Catastrophic Loss) Fund.													
(e) PA Medical Society - CAT Fund imposed an emergency surcharge 12/95, providers forced to pay the 1996 annual surcharge of 164% several months later.													
(f) Physician's News Digest - CAT Fund proposed surcharge of 254% in 1997.													

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1	Turnaround Initiatives Analysis											
2	Supply Cost Opportunity											
3												
4												
5	Conclusion: Supply cost reduction to achievable standard could result in improvement equal to (\$000s)											
6	Combined correction of calculation errors and assumptions reduces Singleton Report Improvement opportunity by (\$000s)											
7												
8												
9	Finding #1: Supply benchmark in Singleton Report is a system level benchmark, but it is applied at the hospital level, leaving out Bucks, Elkins Park and St. Christopher from the analysis											
10	Error #1: Singleton Report applies system benchmark at hospital level, but leaves out three of five DVOG hospitals											
11	Basis - Report cites benchmark as a system level benchmark											
12	DVOG hospitals with mistake - Bucks, Elkins Park and St. Chris											
13	Remedy - Include Bucks, Elkins Park and St. Chris in benchmark analysis at system level											
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Exhibit 8

Conclusion: Supply cost reduction to achievable standard could result in improvement equal to (\$000s)
Combined correction of calculation errors and assumptions reduces Singleton Report Improvement opportunity by (\$000s) \$ (18,262)

Finding #1: Supply benchmark in Singleton Report is a system level benchmark, but it is applied at the hospital level, leaving out Bucks, Elkins Park and St. Christopher from the analysis

Error #1: Singleton Report applies system benchmark at hospital level, but leaves out three of five DVOG hospitals
Basis - Report cites benchmark as a system level benchmark
DVOG hospitals with mistake - Bucks, Elkins Park and St. Chris
Remedy - Include Bucks, Elkins Park and St. Chris in benchmark analysis at system level

Combined calculation errors overstate improvement opportunity by (\$000s) \$ 2,217

Account #	Account Description	AUH, East Falls (MCP)	Elkins Park	Bucks	St. Chris	AUH, Center City (Hahnemann)	Total
Total Supplies							
	Patient care supplies						
	Med/Surg supplies						
	Sutures/Staples			1,830,495	6,568,807		
	Pacemakers			200,424			
	Supplies - special			282,232			
	Organ Procurement			558,271			
	Drugs						
	IV solutions	1,229,579		1,244,862	2,944,127		
	Lab supplies	330,762			975,383		
	Blood and blood products	548,382		215,393	1,280,563		
	Total other patient care	171,884		122,991	1,190,302		
	Sub-total patient care supplies	216,112		229,383	270,531		
		\$ 24,459,060	\$ 6,604,437	\$ 4,684,051	\$ 13,229,713	\$ 53,826,233	\$ 102,803,494
Other G&A supplies							
	Food						
	Dietary provisions	568,196		483,633	9,520		
	Housekeeping supplies	319,714		122,293	1,767,408		
	Laundry & Linen supplies	57,474		76,238	344,729		
	Maintenance supplies	315,103		288,719	511,441		
	Merchandise cost	33,540		205,856	17,649		
	Office / other supplies	45,471		30,588	(151)		
	Computer supplies	303,881		343,565	726,138		
	Sub-total G&A supplies	12,334		5,603	26,013		
		\$ 4,553,245	\$ 1,655,713	\$ 1,556,495	\$ 3,402,747	\$ 5,605,959	\$ 16,774,159
	Total Supplies (\$000s)	\$ 29,012	\$ 8,260	\$ 6,241	\$ 16,632	\$ 59,432	\$ 119,578
	Account expert adj.	(14)				1,000	986
	Total Adj Supplies (\$000s)	\$ 28,998	\$ 8,260	\$ 6,241	\$ 16,632	\$ 60,432	\$ 120,564
	Adjusted Net Revenue	\$ 173,994	\$ 49,049	\$ 38,810	\$ 134,489	\$ 300,515	\$ 696,857
	Supplies as % of Net Patient Revenue	16.67%	16.84%	16.08%	12.37%	20.11%	17.30%
	Derived Supply Cost at 15% of NPR (\$000s)	\$ 26,099	\$ 7,357	\$ 5,822	\$ 20,173	\$ 45,077	\$ 104,529

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Sheet: Exhibit 8

BDC Advisors, LLC

A	B	C	D	E	F	G	H	I	J	K	L	M
1	Turnaround Initiatives Analysis											
2	Supply Cost Opportunity											
3												

Exhibit 8

EBITDA Improvement Opportunity (\$000s)	\$	2,899	\$	903	\$	419	\$	(3,541)	\$	15,355	\$	16,035
Total Hospital expenses	\$	204,706	\$	62,699	\$	52,178	\$	149,061	\$	320,979	\$	789,623
Supplies as % of expenses		14.2%		13.2%		12.0%		11.2%		18.8%		15.3%

Finding #2: Singleton Report makes an error in application of achievable benchmark standard.

Error #2: Hospital operations analysis and benchmark typically expressed as a % of total hospital expenses or as a % of volume Basis - Hospital operations benchmark analysis not typically expressed as a % of revenue because of the impact variances in revenue unrelated to supply cost have on the ratio (e.g., payor mix, managed care penetration, relative balance of power between payors and hospitals and relative impact on purchasing power; DSH status, Medicare case mix, GME)

DVOG hospitals with mistake - All Remedy - Apply supply benchmark derived from objective benchmark source as a % of expense, distinguished by DVOG hospital type as standard for achievable result.

SUPPLY COST EBITDA IMPROVEMENT OPPORTUNITY (\$000s)

Facility	Total Supplies (1)	Total Hospital Expenses (2)	1996 Actual Supplies Cost % Total Hospital Expenses	HCA Benchmark, % of Expenses, 1996 (3)	HCA Opportunity	Tenet Benchmark, % of Expenses, 1996 (4)	HCA Opportunity	Premier Benchmark, 2000 (5)	Premier Opportunity
AUH, MCP (East Falls)	\$ 28,998	\$ 204,706	14.2%					18.0%	\$ 0
AUH, Elkins Park	8,260	62,699	13.2%					16.9%	0
AUH, Bucks	6,241	52,178	12.0%					16.9%	0
St. Christopher's	16,632	149,061	11.2%					16.9%	0
AUH, Hahnemann (City Center)	60,432	320,979	18.8%					19.6%	0
	\$ 120,564	\$ 789,623	15.3%	17.3%	\$ -	15.8%	\$ -	17.2%	\$ 0

Error #2 (additional verification, alternative benchmark source): Hospital operations analysis and benchmark typically expressed as a % of total hospital expenses or as a % of volume utilization. Basis - System level benchmarks referenced in Singleton Report have been re-evaluated based on supply cost as percent of expense (as opposed to supply costs as percent of revenue). Finding - Both HCA and Tenet supply costs as a % of expenses (1996 - 2000) are above the DVOG actual supply costs as a percent of expenses, supporting the finding based on Premier benchmark that no supply cost opportunity is achievable.

HCA (3)

	FY1996	FY1997	FY1998	FY1999	FY2000
Supplies cost (\$millions)	\$ 2,655	\$ 2,722	\$ 2,901	\$ 2,645	\$ 2,640
Total operating expenses	15,346	17,767	17,733	15,424	15,211
Total revenue	\$ 18,786	\$ 18,819	\$ 18,681	\$ 16,657	\$ 16,670
Supply % of operating expenses	17.3%	15.3%	16.4%	17.1%	17.4%
Supply % of revenue	14.1%	14.5%	15.5%	15.9%	15.8%

TENET (4)

Supplies cost (\$millions)	\$ 1,056	\$ 1,197	\$ 1,375	\$ 1,525	\$ 1,595
Total operating expenses	6,682	7,537	8,546	9,578	10,012
Total revenue	\$ 7,706	\$ 8,691	\$ 9,895	\$ 10,880	\$ 11,414
Supply % of operating expenses	15.8%	15.9%	16.1%	15.9%	15.9%
Supply % of revenue	13.7%	13.8%	13.9%	14.0%	14.0%

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1	Turnaround Initiatives Analysis												
2	Supply Cost Opportunity												
3													
101	DVOG												
102			Facility										
103			Allegheny East Falls Hospital										
104			Allegheny Elkins Park Hospital										
105			Allegheny Bucks County Hospital										
106			St. Christopher's Hospital										
107			Allegheny Center City Hospital										
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Exhibit 8

Revenue (\$000s)	Days	Discharges	Revenue / day (\$000s)	Revenue / case (\$000s)
\$ 173,994	100,930	14,183	\$ 1,724	\$ 12,268
49,049	44,019	8,102	1,114	6,054
38,810	36,381	6,236	1,067	6,223
134,489	51,739	10,469	2,599	12,847
\$ 300,515	144,995	21,732	\$ 2,073	\$ 13,828

Sources / Notes:

- (1) Singleton Report
- (2) Restated FYE1996 financial statements
- (3) HCA 10-K reports FY1996 - FY2000, supply costs as percent of operating expenses
- (4) Tenet Corp. 10-K reports FY1996 - FY2000, supply costs as percent of operating expenses
- (5) Premier, Inc. 2000, hospital supply costs as a percent of total hospital expenses, benchmark statistics by hospital by bed size, and overall average